

VZCZCXRO6342

PP RUEHCD RUEHGA RUEHGD RUEHHA RUEHHC RUEHMC RUEHQU RUEHTM RUEHVC

DE RUEHBU #2080/01 2951953

ZNY CCCCC ZZH

P 221953Z OCT 07

FM AMEMBASSY BUENOS AIRES

TO RUEHC/SECSTATE WASHDC PRIORITY 9525

INFO RUCNMRC/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS PRIORITY

RUEHGV/USMISSION GENEVA PRIORITY 0680

RUEAIIA/CIA WASHINGTON DC PRIORITY

RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

RUEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY

RUCPDOG/USDOC WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BUENOS AIRES 002080

SIPDIS

SIPDIS

TREASURY FOR CLAY LOWERY, NANCY LEE, AJEWEL, WBLOCK, LTRAN

NSC FOR JOSE CARDENAS, ROD HUNTER

PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE

ROBITAILLE

PASS EXIM BANK FOR MICHELE WILKINS

PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI

USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: DECL: 10/21/2017

TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)

SUBJECT: WORLD BANK LOOKS TO INCREASE FOOTPRINT IN
ARGENTINA, WHILE GOA QUIETLY PUSHES FOR RETURN TO
ADJUSTMENT LENDING

Classified By: Economic Officer Chris Landberg for Reasons 1.4 (b,d)

Summary

¶1. (C) New World Bank Country Director Pedro Alba told Ambassador that he will wait to see what reforms the next Argentine government implements before deciding whether to develop a new country assistance strategy (CAS) or just issue a progress report on the current CAS. The existing CAS is focused on human development, governance, and non-energy infrastructure projects. However, Alba is discussing with the IDB how the Bank can complement IDB energy sector projects. Alba also commented that Economy Ministry officials have informally inquired about the possibility of resuming structural adjustment lending. Alba responded that IMF endorsement would be a prerequisite -- and would require high-level GoA commitment to more orthodox reforms -- and also urged GoA interlocutors to negotiate a Paris Club deal. End Summary.

Reforms will Determine Direction of World Bank Engagement

¶2. (C) During an October 5 courtesy call on the Ambassador, new World Bank Country Director Pedro Alba emphasized his interest in improving the relationship with the Argentine federal government, speeding up disbursements under the \$3.8 billion 2006-2008 CAS, and analyzing ways to improve and expand the World Bank's project portfolio, including into the area of energy policy. The Bank is in the middle of its three year CAS, and to date has disbursed or committed \$1.9 billion of the total program. Alba noted that at this midway point he has two choices with regards to the CAS: 1) prepare a progress report to the World Bank Board; or 2) prepare a new CAS.

¶3. (C) Alba thought it premature to determine which way to go prior to Argentina's October 28 Presidential elections. Rather, he planned to wait to see what kind of economic plan the next government put in place. Alba said that if the new government's economic reforms were limited, "what we call in Spain a 'weak gazpacho'" (Alba is Spanish), then he would just go forward with a report on the current CAS to the Board. However, if the new government indicated a

willingness to be more serious about changing course from the current mix of heterodox and interventionist policies, Alba would raise the possibility of negotiating a new CAS with World Bank Vice President for Latin America and the Caribbean Pamela Cox.

Relations Should Improve under Cristina

¶4. (C) Alba assumed that current front-runner, Senator, and First Lady Cristina Fernandez de Kirchner would win the elections and become the next Argentine President. He said that Cristina had given the impression during a recent meeting with Pamela Cox that she was interested in improving the GoA's relationship with the World Bank. The meeting was pleasant, though not detailed, and Cristina outlined her social vision (more inclusive and better distributed economic development).

¶5. (C) Alba said that officials on both sides worked to recover from the fallout from Cox's trip to Argentina earlier in 2007, during which President Kirchner lashed out publicly at the World Bank and other IFIs following Cox's mildly critical comments about poverty levels and the lack of clear and stable rules for investment. Alba agreed with the Ambassador's comment that Cristina Fernandez de Kirchner seemed to have a limited understanding of economics, but was working hard to learn. He thought that the composition of her economic team would be crucial; if she kept most of the current GoA officials in place, Alba expected only minimal change.

World Bank Considers Entry Into Energy Sector

¶6. (SBU) The 2006-2008 CAS provides investment loan

BUENOS AIR 00002080 002 OF 003

operations only, since no adjustment lending is possible without some kind of IMF program or approval. With total exposure of \$6.5 billion, including the current CAS, net transfers have been negative in recent years -- a logical consequence of increased adjustment lending during the crisis and lower lending as the economy has improved. Alba stated that the World Bank currently has 29 open projects in Argentina, with roughly 30% focused on human development (social programs, education, health), 60% focused on non-energy sector infrastructure (roads, water treatment), and 10% technical assistance (TA) on governance issues. The Bank is using its TA program to help the Provinces with Financial Management, helped finance the creation of the GoA's relatively new Investment Promotion office (headed by Beatriz Nofal), and also supports public investment planning at the Economy Ministry.

¶7. (C) The World Bank has limited its engagement in Argentina's energy sector mainly due to its concerns with the GoA's current energy policy framework, i.e., the GoA's various interventions in the area (upstream export tariffs, downstream export controls, frozen electricity and natural gas tariffs since 2002). The GoA's 2005 decision to pre-pay a World Bank loan funding the Argentina/Paraguay bi-national Yacereta hydro-electric project, rather than abide by World Bank conditionality, also raised red flags within the World Bank bureaucracy. However, Alba noted that Energy Secretary Cameron had recently approached him requesting World Bank re-engagement on energy issues. Alba said he was willing to have a dialogue with the GoA on energy issues, and also recently organized a joint World Bank/IDB staff meeting to discuss the sector. Alba speculated that the IDB was working in the energy sector in part because it offers so many potential projects. He also thought that the IDB liked the idea of the World Bank acting the role of "tough guy," a division of labor with which Alba did not have a problem.

¶8. (C) Since the IDB is already planning to provide substantial TA to Energy Secretary Cameron's outfit, Alba was not yet sure how World Bank assistance would complement

existing projects. However, he specified that any World Bank TA or financing would be policy-oriented. Therefore, he plans to move carefully, first working to understand the sector and GoA policies and then engaging with the IDB and government authorities. Key, in his opinion, was answering the following questions: what are the GoA's priorities, what is the current policy framework, and what structural measures will the next administration be willing to take in order to attract investment to the sector?

GoA Interest in World Bank SAL

¶9. (C) Alba commented that Economy Ministry officials had approached him informally about the possibility of resuming quick disbursing loans, i.e., "Development Policy" or "Structural Adjustment" loans (direct budget-support), which typically support policy and institutional reforms. The GoA officials were aware that this would require IMF written endorsement of the lending program (and GoA macro policies), although Alba clarified that it would not require a formal IMF program.

¶10. (C) Alba said he had responded to the GoA officials that it would be much easier to negotiate a new adjustment lending program if the GoA were to improve its relationship with the IMF and reach an agreement with the Paris Club. Alba also noted that possible access to World Bank budget support would give the GoA another incentive to develop realistic proposals for a Paris Club deal. He said he had advised his Economy Ministry contacts that the best option was to pay the GoA's roughly \$4 billion Paris Club arrears up front, and then engage with official creditors on restructuring the remainder. However, he said he had also emphasized to GoA officials that it would be difficult for them to do so without a formal IMF program.

¶11. (C) Alba envisioned a World Bank adjustment lending

BUENOS AIR 00002080 003 OF 003

program as functioning to move the GoA away from price distortions and improving both fiscal and monetary policies. He thought both the Bank's Board of Directors and the IMF would be amenable to such a program if the next administration appeared committed to achieving such objectives.

Comment

¶12. (C) Behind the GoA's recent quiet inquiries to the World Bank regarding adjustment lending and energy sector engagement is a growing GoA concern that Argentina is not attracting the infrastructure investment it needs. Investment levels overall have stagnated and new ("greenfield") investment is not materializing, especially in the crucial public utilities sectors. This lack of investment is a consequence of heavy-handed government intervention in a number of economic sectors, particularly energy, and ongoing concern by domestic and foreign investors at the lack of contractual sanctity and the GoA's propensity to change the rules of the regulatory game on short notice, as further evidenced by Argentina's steady decline over the last few years in the World Bank's "Doing Business" rankings. In light of GoA pronouncements this year of \$10 to 15 billion in new energy projects, GoA officials are desperately looking for financing. The World Bank is a potential source, but only if the incoming GoA administration demonstrates a willingness to break with past interventionist policies. End Comment.

WAYNE